

WRITTEN TESTIMONY OF
GARY D. FORSEE
CHAIRMAN AND CEO OF SPRINT CORPORATION

on

**COMPETITION IN THE COMMUNICATIONS MARKETPLACE: HOW
TECHNOLOGY IS CHANGING THE STRUCTURE OF THE INDUSTRY**

**BEFORE THE HOUSE COMMITTEE ON
ENERGY AND COMMERCE**

MARCH 2, 2005

Good morning Mr. Chairman and members of the Committee. Thank you for the opportunity to discuss with you today competition and the ongoing technological changes in the communications marketplace. The two matters are closely related.

Sprint has a proud history dating back to 1899 as an innovative, competitive company driving technology and bringing to the marketplace products and services that have transformed how people live and work. Today, Sprint is a global communications company providing wireless, long distance, and local communications services. Sprint built and operates the United States' first nationwide all-digital, fiber optic network. With this network, which includes a global Tier 1 IP backbone, we provide a broad suite of voice and data services to domestic and global customers.

Sprint built, and continues to deploy, the first all-digital, all-PCS nationwide wireless network from the ground up, currently serving more than 24 million wireless customers in more than 350 Metropolitan Statistical Areas. Sprint has

been a leader in advanced wireless technology and was the first carrier to deploy a CDMA network. Sprint then launched 1XRTT voice and data service, expanding voice capacity and providing end users wireless access to Internet and other data services. Sprint's CDMA network covers 99% of major metropolitan areas, airports, and highways in 48 states, the U.S. Virgin Islands, and Puerto Rico. Together with its affiliates and roaming partners, Sprint offers wireless service in all 50 states. Sprint offers both voice and data services (with data speeds averaging 50 to 70 kbps) on its wireless network.

Sprint has also built one of the largest fiber optic networks in the U.S. This network has significant operational advantages, including the ability to seamlessly interconnect a variety of technologies, accommodate diverse standards and protocols, and provide secure communications. Sprint's wireline network is extensive and robust. Its U.S. network consists of more than 34,000 physical route miles of fiber optic cable. Its global network consists of over 75,000 route miles of fiber, including an ownership stake in major undersea cable systems.

I am pleased to have the opportunity to discuss with you the pending merger of Sprint Corporation and Nextel Communications, Inc. It is a merger that will create a robust, wireless-focused company that will be positioned to compete, innovate and change communications in our nation for the better. Upon receipt of the necessary approvals, the combined company will have the opportunity to effectively expand deployment of wireless voice and data services, as well as high-speed technologies. Once necessary approvals are obtained, we also anticipate

spinning off Sprint's incumbent local telephone assets – comprising approximately 7.7 million access lines – as a strong independent telecommunications company.

Sprint and Nextel combined have net operating revenue of approximately \$34 billion and a market cap of more than \$68 billion. The two customer bases combined have over 40 million wireless subscribers (35 million direct and 5 million through affiliates and partners). The merger will create a Fortune 50 company that will bring significant technological and competitive benefits to consumers. As a result of the combination, capital originally intended to build duplicate networks will become available. The merged company will be able to deploy that capital to provide consumers better services and more choices while they are on the go, at work or at home.

With the combined capabilities of Sprint's nationwide CDMA network and Nextel's nationwide iDEN network, the new company will have robust wireless network capabilities and sufficient spectrum to provide the dynamic network services and data offerings demanded by our customers today. In addition, continued competition in the wireless market will necessitate additional investment in research and development in order to develop competitive cutting-edge, multimedia products and services that will generate economic growth and bring tremendous innovation and value to consumers. This will be a function both of the company's own research and development activities and of the vendor research and development activities that our increased scale and scope will induce. Sprint and Nextel both have distinguished histories of innovation. Sprint has been the

industry leader in wireless data services, and Nextel has a proven differentiating feature in its Direct Connect walkie-talkie feature. Sprint Nextel plans to build on these strengths using a next-generation wireless broadband network to provide new communications solutions and more choice for consumers.

Fundamentally, this merger is about growth. It is about improving service, driving innovation, and establishing a predominately wireless communications company that can more effectively compete with other communications companies. In particular, the merger will create a robust wireless competitor that will be able to compete very effectively for a broad range of customers in the mobile telephony industry. Verizon Wireless and Cingular each has greater subscriber share and, in many geographic areas, Cingular will have more spectrum than Sprint Nextel will have. After closing, Sprint Nextel will derive more than 80% of its revenues from wireless service and will have a greater ability to compete with these and the other firms than either company would have separately.

The merger is expected to deliver operating and capital investment synergies with an estimated net present value of more than \$12 billion. Such savings come from the efficiencies gained by combining our customer bases – both current and potential – and by combining our networks and other assets. For example, the merged company will realize economies of scale in connection with the acquisition of network equipment and handsets and other terminal devices. These economies will reduce costs and improve the competitive posture of the merged company, to the benefit of consumers.

IMPROVING WIRELESS SERVICES FOR CONSUMERS

Sprint and Nextel, along with other companies that provide either Sprint or Nextel-branded service, operate networks that directly cover nearly 262 million people across the country. The combined company will noticeably improve wireless service coverage, capacity, and quality by allowing cost-effective optimization of the Sprint and Nextel cell sites, spectrum, networks, and operations, resulting in increased signal strength, fewer dropped calls and greater geographic coverage. As a result of the merger, consumers will gain access to the industry's leading broadband offerings and push to talk features, all from one carrier, and the companies' combined operations will make possible a richer set of products, services, and features.

Following the proposed merger, Sprint Nextel will be a predominantly wireless company operating both Sprint's current CDMA network and Nextel's iDEN network, and prospective customers who visit Sprint Nextel retailers after the merger will be able to ascertain which network and functionalities most efficiently, effectively, and economically address their needs. Customers who prefer wireless broadband capabilities will be more interested in CDMA service, currently available on Sprint's network and handsets. Customers who prefer the robust, instant-communication push-to-talk functionality available on Nextel's network will be more attracted to the iDEN network and handsets. The merger will allow Sprint and Nextel to avoid costly duplication in their development and deployment of new technologies, and, with a larger customer base, they will be able to undertake projects that would have been uneconomical (*i.e.*, unprofitable) for either to pursue

alone. In short, both current and future Sprint Nextel customers will have a broader array of services and features to choose from than either company provides today or would be likely to provide in the future on a stand-alone basis.

The improved wireless network that will result from the combination of Sprint's and Nextel's wireless assets not only will benefit consumers, but also will be a boon for public safety. Sprint and Nextel have been dedicated to providing advanced communications systems to the public safety community, and a combined Sprint Nextel will move forward with an even stronger effort to develop wireless products and services that public safety officials can utilize to make America more secure. Sprint and Nextel are committed to addressing communications problems for first responders and, as a merged entity, we will continue to work with the public safety community to ensure that their communications needs are met. The combined company will offer first responders and other public safety organizations a wide range of products and services designed to meet their unique needs, including Wireless Priority Service, Priority Connect, Emergency Group Connect, Emergency Response Team, Interoperability Directory, Collaboration Solutions and Emergency Preparedness Services. And, as the companies have made clear since announcing their intent to merge, Sprint Nextel will continue to move forward expeditiously with the implementation of the FCC's 800 MHz band reconfiguration process.

Sprint Nextel will also build on each company's leadership position in providing innovative communications solutions for persons with disabilities. Sprint

is the nation's largest provider of wireline telecommunications relay service (TRS) to the deaf and hard of hearing, with innovative services like Internet Relay, Video Relay and CapTel. For wireless users with speech and hearing disabilities, Sprint offers a wide range of handsets that are TTY compatible as well as a suite of mobile messaging services including text messaging, instant messaging and e-mail. For wireless users that are blind or visually impaired, Sprint offers a number of handsets with voice input/output technology as well as robust Voice Command service that provides voice access to dialing and information services. Sprint offers its blind, visually impaired and physically disabled customers free Voice Command service along with 10 free directory assistance calls per month. A combined Sprint Nextel is committed to making innovative and useful services available to persons with disabilities.

DRIVING INNOVATION

Sprint Nextel will be committed to advancing its industry-leading broadband offerings as it transitions to new third-generation ("3G") and other advanced technology platforms. Without question, the mobile telephone business is in a transformational stage, one where our customers not only expect extensive coverage for their voice calls, but are demanding the availability of e-mail and internet access wherever they are. Consumer demand for wireless data services is growing tremendously, as demonstrated in part by Sprint's successes. Millions of Sprint's current customers subscribe to data services. At the end of 2004, there were nearly 7.7 million direct wireless data subscribers, including 6.2 million Sprint PCS Vision

customers. Sprint Nextel's deployment of a 3G platform promises to accelerate these trends.

In June 2004, Sprint announced adoption of a 3G platform to enhance the PCS Vision network's data rate and capacity. This platform provides an order-of-magnitude increase in data rates. The platform is expected to provide a peak downlink data rate of 3.1 mbps, with an anticipated average data rate of 400-600 kbps. Uplink data rates peak at 1.8 mbps, with average user data rates in the 300-500 kbps range. Sprint has begun launching this service and plans to make it available to 129 million people in 39 major cities this year; coverage will be extended to the vast majority of its licensed markets by year-end 2006.

The merger will ensure that Nextel's customers have access to this industry-leading broadband network. At the same time, it will obviate the need for a multi-billion dollar investment by Nextel in new advanced network facilities that would offer services that Sprint is already in the process of deploying.

Looking to the future, the companies expect to make key investments in broadband technology research and development to deliver more advanced offerings across all of their spectrum holdings. Combining Sprint's and Nextel's assets provides the financial flexibility to pursue opportunities that could have been prohibitively costly or risky for each company individually. Although there will be challenges, the new company's goal will be to go beyond 3G capabilities to provide customers with a complete interactive multimedia experience. The company expects to deploy bandwidth-intensive applications that incorporate devices,

applications, and smart network technologies into an intuitive, easy-to-use service that will enable applications like video-on-demand, document collaboration and video conferencing over wireless networks. Sprint and Nextel intend to provide this advanced service to a nearly nationwide footprint, including many rural areas, and would offer high-speed, low-latency access to high-quality multimedia content at reasonable prices. Without doubt, the deployment of new wireless, interactive multimedia services has the potential not only to enrich the lives of millions of Americans through an enhanced, visual end-user experience, but also to increase productivity and reduce costs by providing the ability to access more information and more images on the go than ever before.

CREATING A STRONGER WIRELESS COMMUNICATIONS COMPETITOR

Competition in the mobile telephony industry in the United States is vigorous and dynamic and will remain so after Sprint and Nextel merge. With increased scale, complementary wireless and IP network assets, and the independence to take on the biggest phone companies, Sprint Nextel will be in a position to compete effectively with both wireless and wireline companies. And because Sprint and Nextel intend that the merged company will spin off Sprint's incumbent local phone assets, the combined company will have an unmatched incentive to pursue a wireless future such that wireless and wireline services increasingly compete for customers, unlike other large wireless providers that are primarily owned by Bell company parents. The merger will not change Sprint's relative market position. Sprint is currently the third largest wireless carrier, and as a result of merger, the combined company will still hold the number three position. Sprint and Nextel

today have a combined customer base of approximately 40 million wireless subscribers, compared to 49.1 million at Cingular and 43.8 million at Verizon Wireless. T-Mobile and regional wireless players also are key players and compete vigorously in the marketplace.

As a combined entity, Sprint Nextel will enjoy economies of scale and scope that are expected to improve service quality and reduce the cost of serving an additional wireless customer and providing an additional minute of wireless service. As a result, the merger will yield a stronger and more efficient wireless competitor.

After accounting for the costs of integrating the two companies as well as other merger-related costs, it is estimated that the Sprint Nextel merger will result in total net synergies of approximately \$12 billion on an after tax, net present value basis. These synergies will be realized through numerous cost savings, including, but not limited to,

- sharing future costs of undertaking research and development efforts and deploying innovations to the networks
- sharing the expense of implementing improvements to information technology and billing, customer care, and sales and marketing systems
- sharing each other's network coverage in geographic areas where the other is not as developed, thereby avoiding the cost of duplicating cell sites in those areas
- sharing facilities to collocate a significant number of existing and planned cell sites which will reduce the cost of cell site deployment and ongoing cell site expenses (as well as improve coverage).

These cost reductions and improvements in quality and technology will enable Sprint Nextel to be more competitive in the future and will benefit

consumers by improving the coverage, quality and scope of the services we offer them. The cost savings will also allow us to establish new services that are more favorable – in terms of value, quality and/or features – than would be available from either company absent the merger.

The combined company will be able to offer the benefits of Sprint's wireline network solutions to Nextel's business and consumer customers. Sprint has one of the largest fiber networks in the United States. This network has significant operational advantages, including the ability to seamlessly interconnect a variety of technologies, accommodate diverse standards and protocols, and provide secure communications. Sprint's wireline network is extensive and robust. As noted above, its U.S. network consists of more than 34,000 physical route miles of fiber optic cable. Its global network consists of over 75,000 route miles of fiber, including an ownership stake in major undersea cable systems. As a result of the merger, Nextel's customers will receive access to Sprint's suite of voice, data and IP products and integrated solutions provided over Sprint's extensive wireline network.

It is worth noting that Sprint has been a leader in providing other firms with "second brand" opportunities. Under such arrangements, firms use Sprint's wireless and wireline networks to provide service to consumers under their own brand names (*i.e.*, "second brands"). These second branding opportunities allow companies like Virgin Mobile and ESPN to provide wireless services without the time delay and expense of first replicating Sprint's wireless network. These companies leverage their marketing capabilities to become nationwide wireless

competitors on their first day of service. And they do this by utilizing the Sprint network facilities, which allows us to make more efficient use of our network and fixed operational costs. The merger will advance the availability of wireless service from MVNOs by including advanced services and functionality in their retail product offerings.

Sprint Nextel will be a formidable competitive force with every incentive to optimize the wireless future. Nextel and Sprint are industry-leading companies in technological innovations and data solutions. These differentiating characteristics will position the combined company as a strong and innovative competitor. Following the intended spin-off of Sprint's ILEC operations, the combined company will lack any material incumbent LEC wireline business restraint on its competitive strategy, and, with its wireless focus, Sprint Nextel will be a true competitive alternative to wireline local telephony. I expect, therefore, that this merger will accelerate the increasing substitution of wireless-based services for wireline-based services, thereby creating growth in the wireless industry.

In closing, I wish to emphasize my view that Sprint Nextel will be the premier communication solutions provider by providing its customers with an unmatched portfolio of communications services. Whether it is wireless, IP, data or multimedia, Sprint Nextel will provide robust integrated wireless and IP-based wireline solutions to businesses and consumers.

Thank you. I would be happy to respond to any questions that Members of the Committee may have.